

OVERVIEW OF THE EXPORT-IMPORT BANK OF THE U.S. EXPORT CREDIT INSURANCE PROGRAM

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PURPOSE	<ul style="list-style-type: none"> - The U.S. government has determined that it should offer export credit insurance to encourage the continuation and development of U.S. export trade and to match foreign officially supported competition. - The reasons why exporters and banks buy export credit insurance are threefold: <ol style="list-style-type: none"> 1. Often buyers demand credit, or credit terms of sale are necessary to successfully compete, thus; 2. Exporters and financial institutions desire protection against the political and commercial risks of default; and 3. With insurance on a foreign receivable, the proceeds of which can be assigned, it is easier for the exporter to sell or borrow against such receivables thus enhancing cash flow.
(Competitiveness)	
(Risk Protection)	
(Financing)	
BACKGROUND	<ul style="list-style-type: none"> - In 1961 authority to issue insurance and reinsurance was granted to the Export-Import Bank of the U.S. (Ex-Im Bank) by the U.S. Congress. The Foreign Credit Insurance Association (FCIA) was formed with Ex-Im Bank and 70 private sector insurance companies sharing risk and income. - From 1961 to 1983 the number of private participants varied, averaging 40 companies. The private insurance companies accepted liability for some commercial risks of default and Ex-Im Bank accepted liability for the political risks and excess commercial risks of default. An agency agreement allowed FCIA to act on behalf of Ex-Im Bank and a reinsurance agreement defined the limits of Ex-Im bank's liability. - In 1983 the insurance companies withdrew from liability and Ex-Im Bank decided to reinsure FCIA 100%. A limited number of insurance companies continued to participate without liability as "fronting" companies and as a public service in an advisory capacity. - In 1989 FCIA was permitted to reinsure a selected book of its business (both political and commercial risk) with reinsurers other than Ex-Im Bank. However, Ex-Im Bank indemnified the fronting insurance companies against default or nonpayment by the reinsurers. Therefore, the U.S. government remained ultimately behind the FCIA policies. - In 1991 the relationship between Ex-Im Bank and FCIA changed. A contract was signed between Ex-Im Bank and The FCIA Management Company, Inc. (FCIAM) which called for FCIAM to service export credit insurance policies on behalf of Ex-Im Bank as well as sell FCIA export credit insurance which is a private enterprise. The contract was terminated in September, 1992 after which Ex-Im Bank assumed responsibility for operation of the Ex-Im Bank program.

OPERATIONS

- Ex-Im Bank is a small independent federal agency of just over 420 employees principally located in Washington, D.C. Approximately 45 of the staff is involved in the Insurance Program. Ex-Im Bank has 6 regional offices which are located in Washington, the District of Columbia; New York, New York; Chicago, Illinois; Miami, Florida; Houston, Texas and Los Angeles, California which has satellites in San Jose, California, and Orange County, California.

COVERAGE

- The purpose of the program is to provide foreign credit risk protection to exporters and financing institutions. It is not transport, liability or performance insurance. There are 2 types of risk covered under the policies.
 1. Commercial risks of default, i.e., the buyer's inability, due to financial difficulty, to pay when an obligation is due.
 2. Political risks of default, i.e., events beyond the control of the buyer, caused by government action. These include:
 - . political violence i.e. war
 - . government intervention
 - . cancellation of an export or import license
 - . transfer or inconvertibility risk i.e., the inability to purchase U.S. dollars in a legal market.
- Comprehensive, i.e., political and commercial risk cover, or Political Only cover is available. Commercial risk cover alone is not available.
- The cover offered is often limited to certain terms or buyers in specific countries. These are listed in the Country Limitation Schedule (CLS).
- Devaluation is not covered as a political risk but, if it causes default, may be treated as a commercial risk provided a local currency deposit was made by the buyer. Contract cancellation or frustration and disputes between buyer and seller are not covered. The sale of military equipment or sales to military entities and certain Marxist-Leninist countries cannot be supported.
- Coverage normally begins at the date of shipment and is in force until the insured credit term expires.
- Cover is offered for short term credits (up to 180 days) and medium term credits (up to 5 years, exceptionally up to 7 years). The medium term cover parallels Ex-Im Bank's medium term guarantee but the basic difference is in the nature of the programs. A guarantee is unconditional. An insurance policy will result in claim payment if the insured can demonstrate that it has conformed to the terms and conditions of the policy.

- A Percentage of Cover applies to the insured amount (principal and specified interest) and is in 2 formats:
 1. equalized, for both political and commercial risks of default at 90%, 95% or 98% for short-term repayments depending on the type of policy and product, and 100% for medium-term repayments ; and
 2. split, normally 100% for political and 90%, 95% or 98% for commercial risks of default depending on the type of short-term policy.
- Percentages of cover may be reduced according to risk.
- Transactions with sovereign entities, which offer the full faith and credit of the importing country, receive 100% equalized cover. Not all government entities are "sovereign".
- Bulk agricultural commodity sales receive 98% equalized cover or 98% commercial and 100% political cover.
- The Principal Amounts Covered are:
 - . for short-term transactions with repayment periods of up to 180 days: the gross invoice value, which may include shipping and insurance charges; and
 - . for medium-term transactions with repayment periods of 1 to 5 years: the financed portion of the contract value, as a minimum 15% cash payment is required.
- The Interest Amounts Covered
(if the buyer is being charged pre or post default interest it must be specified in the buyer obligation)

For Short-Term Sales the lesser of:

1. the rate specified in the obligation; or
2. the rate legally valid in the country of the buyer; or
3.
 - . Fixed rate - Wall Street Journal Prime less .5% set at time of shipment.
 - . Floating rate - Wall Street Journal Prime less .5%.
 - . The period of time for which post default interest cover is given on short-term sales is up to 180 days after the default or the date of claim payment, whichever is earlier.

For Medium-Term Sales:

- . 100%
 - . The period of time for which post default interest cover is given for medium-term sales is up to 270 days after the default or the date of claim payment, whichever is earlier.
- Eligible Repayment Periods for Specific Products are:
(see attached Appendix A)
- . For short-term up to 180 days: spare parts, raw materials, consumer goods, services performed over a period of less than one year.
 - . For medium-term up to 5 years depending on the contract value: capital goods, services performed over a period of more than 1 year.
 - . Bulk agricultural commodities, fertilizer and consumer durables are considered short-term products but receive support for repayment periods of up to 360 days without a 15% cash payment required.
 - . Livestock (not including fowl) may receive support for repayment periods of up to 3 years, depending on the contract value.
- Capital goods sold for ultimate resale receive 2 year cover

The eligible repayment periods for specific products are dictated by agreement with other members of The International Union of Credit and Investment Insurers (Berne Union). In this way, Ex-Im Bank attempts to create a "level playing field" for all exporters receiving insurance support from their governments.

- Eligible Repayment Mechanisms:
- All types of repayment mechanisms may be covered including open account, sight or term letters of credit, drafts against acceptance or payment and promissory notes. For medium-term repayments, at least semiannual payments must be made, balloon payments are not permitted and the first payment is due within 6 months after shipment or completion of installation if installation is part of the contract. Barter arrangements are not covered.
- U.S. Content Requirements are:
- For short-term: at least 50% U.S., exclusive of mark-up.
- For medium-term: at least 85% U.S.; however,
- . for sales where U.S. content is at least 50%, cover may be provided on the U.S. portion only.
 - . for sales where U.S. content is not at least 50%, cover is not available.

- Ex-Im Bank has reinsurance agreements with various other Official (foreign government) export credit agencies, which may be utilized to provide cover on sales which incorporate components from these countries in excess of Ex-Im Bank's normal foreign content guidelines.
- Services must be performed by U.S. based personnel either in the U.S. or on-site.

POLICY TYPES

- There are 2 general policy types, Multibuyer and Singlebuyer.
- Multibuyer policies cover a number of buyers in several countries and require the insured to cover all or a reasonable spread of its export credit sales to enable Ex-Im Bank to mitigate its risks.
 - . It is a policy to cover short-term credits.
 - . It covers shipments made over the period of 1 year
 - . An Aggregate Policy Limit (APL) is assigned but the insured must receive approval for each buyer by applying for a Special Buyer Credit Limit (SBCL).
 - . A Discretionary Credit Limit (DCL) may be granted to an experienced insured to relieve them from obtaining SBCLs for sales eligible for insurance up to a certain dollar limit, provided they maintain credit files on the buyers and the sales conform to the restrictions of the Country Limitation Schedule (CLS). There may be a Ledger DCL for credits to buyers with whom the exporter has had credit experience and a Credit DCL for credits to new customers or those with whom the exporter has not had credit experience
 - . A first loss deductible is typical.
 - . It is the most popular of the Ex-Im Bank policies.
- Singlebuyer policies cover single or repetitive sales to one buyer.
 - . It may be short or medium term.
 - . There is no first loss deductible.
 - . It allows the applicant to select those transactions which the applicant desires to insure.
- There are many types of specific policies, most of which are detailed in the Ex-Im Bank Program Selection Chart and Ex-Im Bank Users' Guide. In addition to the normal exporter product sales there are special policies and coverage as follows:
 - . Service policies short and medium term.

- . Leasing policies:
 1. for Operating Leases, covers a specific number of lease payments plus the depreciated value of the equipment if expropriation occurs. No down payment is required; and
 2. for Financing Leases, covers the total of the lease payments. A 15% cash payment is required.
- . U.S. Parent to Foreign Subsidiary sales may receive political risk cover only.
- . Consignments in a foreign country may receive political risk cover against loss and when title is transferred with a credit sale, the regular insurance may be issued.
- . Pre-Shipment cover against political and commercial risks of default may be issued to a U.S. builder during a fabrication period.
- . Sales denominated in "freely transferrable" foreign currencies may be covered in that currency, including transfer risk cover but without exchange risk cover.
- . Sales denominated in local currencies may be covered in that currency without transfer or exchange risk cover.
- . There are special short-term policies for banks covering:
 1. foreign letters of credit; and
 2. foreign buyer credits.
- . Non-Acceptance cover against the arbitrary refusal of the buyer to accept products which conform to the contract of sale may be offered at no extra cost in addition to the credit risk insurance.
- . The Umbrella Policy allows intermediaries such as banks, insurance brokers and state or city development authorities to assist exporters who meet the US SBA definition of a small business and with less than \$3 million in prior 2 year's average annual export credit sales to obtain short-term insurance. It has no deductible or minimum premium and offers an increased percentage of cover.
- . The Small Business Short-Term Policy has an increased percentage of cover and no deductible to encourage entry into the export market of those companies who meet the US SBA definition of a small business and with less than \$3 million in prior 2 year's average annual export credit sales.

- . The Small Business Environmental Policy offers the same benefits as the Small Business Policy (but has no limit on export credit sales as entry or exit requirements) for exporters of environmentally related products and services.
- . The Small Business Y2K Policy offers the same benefits as the Small Business Environmental Policy for exporters of year 2000 computer compliance products and services.
- . An “Enhanced” assignment of policy proceeds is available under the Small Business, Small Business Environmental, Umbrella, and (if the exporter qualifies as small per the US SBA definition) Short Term Single Buyer Policies. This assignment affords protection to the assignee against violations of the terms and conditions of the policy by the insured. Claims paid under such an assignment which would otherwise have been denied will be recovered from the insured.
- . Medium-Term Policies are offered for both single and repetitive sales in a **non-documentary** format to **exporters**, who may receive a documentary assignment which protects the assignee against defects such as fraud or disputes in the transaction. Medium-term policies are offered for both single and repetitive sales (including bank-to-bank lines of credit) in a **documentary** format to **banks**, which protects them against defects in the underlying transaction.
- . Bank Buyer Credit Policies (short term) are offered for both buyer and supplier credits. All buyer credits and small business supplier credits are given the documentary format.

APPLICATIONS

- Applications for insurance go directly to the regional offices of Ex-Im Bank
 - Applications may be submitted directly by the exporter or bank or through: an insurance broker.
 - Processing time may be as short as 1 week.
 - Application review is a 2 step process:
 1. Ex-Im Bank reviews the operating history, the financial condition and the nature of the business of the applicant; and
 2. Ex-Im Bank reviews the creditworthiness of the foreign obligors, which must be demonstrated by providing credit reports and financial statements depending on the size of the credit limit requested. In some cases Ex-Im Bank may already have credit information on the buyer.
- S** Ex-Im Bank has published its Medium and Short Term Credit Standards for both Exporters and Buyers. Applicants may refer to them to determine the likelihood of approval of an applicant, a buyer, a DCL, an Enhanced Assignment, and renewal of a policy.

COST

- Applicants for multibuyer policies can save time by submitting the application for the policy and the Special Buyer Credit Limit applications at the same time.
- No evidence of foreign competition is necessary.
- There is no charge for a non-binding premium quote. Potential applicants are welcome to contact Ex-Im Bank for a non-binding premium quote for singlebuyer policies over the phone or use the Exposure Fee Advice Tables on the Internet at Ex-Im Bank's homepage <www.exim.gov> .
- Premiums are charged per \$100 of the insured amount which is the gross invoice value for short-term sales and the financed portion of the contract value for medium-term sales.
- Multibuyer policies have a "composite rate", i.e., a single rate charged on all insured sales based on a variety of factors such as:
 - . the insured's experience;
 - . the type of buyers;
 - . the product;
 - . the repayment terms;
 - . the location of the buyers;
 - . the anticipated volume; and
 - . the amount of the deductible and any discretionary authority.

The insured and Ex-Im Bank negotiate a "reasonable" spread of risk, typically all credit sales, on which the premiums are charged.

There is a minimum advance premium of \$500, refundable if unused, paid at the beginning of the policy year and then the insured pays premiums monthly based on shipments.

- Singlebuyer policies have a premium, taken from a rate table, based on 3 factors:
 1. the repayment term;
 2. the country; and
 3. the type of buyer.

There are 3 types of buyers:

1. Sovereign, or transactions with a sovereign guarantor;
2. Non-sovereign public sector or financial institution entities;
3. Creditworthy private entities.

When a short or medium term single buyer policy covers a single sale with a single shipment, the entire premium is paid before shipment.

When a short term single buyer policy covers repetitive sales, the entire premium is paid up front based on the anticipated total sales. If sales will exceed that amount, a new policy must be issued.

When a medium term single buyer policy covers repetitive sales or single sale multiple shipments, premium payments are made based on shipments.

- Rates for single buyer policies may vary from \$.03 per \$100 for a sight letter of credit from a sovereign buyer in the least risky countries to \$6.19 per \$100 for a 5 year loan to a private buyer in the most risky countries. Applicants can get a non-binding premium rate indication by using the short Term Rate Tables and the MediumTerm Exposure Fee Advice Tables available at Ex-Im Bank's Homepage on the Internet.
- Rates for multibuyer policies depend upon the previously listed underwriting factors.
- However, there are 4 multibuyer policies which use a reduced premium table based on only 2 factors, the repayment term and type of buyer. These are the Small Business, Small Business Environmental, Small Business Y2K and Umbrella Policies which are used to encourage entry into the export market.
- The premium rates are typically lower when cover against only political risks of default is requested.

ACTIVITY

- For the fiscal year ended September 30, 1999, Ex-Im Bank:
 - . **Authorized** \$3.7 billion in insurance cover, 33% of it for Small Businesses
 - . **Insured** total shipments of \$1.9 billion, of which \$1.6 billion were short-term transactions
 - . **Issued** over 1,600 policies of which 83% were to Small Businesses
- The top 10 countries to which insured shipments went were:
 1. South Korea
 2. Mexico
 3. Brazil
 4. India
 5. United Kingdom
 6. Canada
 7. United Arab Emirates
 8. Dominican Republic
 9. Argentina
 10. Hong Kong

Product	Maximum Repayment <u>Term</u>
Consumables; raw materials; spare parts; computer software commodities other than bulk agricultural; independent services contracts.	up to 180 days
Bulk agricultural commodities; fertilizer; agricultural pesticides; consumer durables.	up to 360 days
Capital equipment with a contract value of less than \$80,000. Livestock (breeding, dairy and draught, excluding fowl) with a contract value of up to \$150,000	up to 2 years
Capital equipment with a contract value of \$80,000 to \$174,999 Livestock as above with a contract value of more than \$150,000	up to 3 years
Capital equipment with a contract value of \$175,000 to \$349,000	up to 4 years
Capital equipment with a contract value of at least \$350,000	up to 5 years

Note: Services associated with the sale and installation of capital equipment and included in the contract price may be amortized with the repayment term of the contract.

Note: Capital equipment sales intended for resale, such as to distributors, are eligible for a maximum term of 2 years.

GENERAL CREDIT INFORMATION REQUIRED*
FROM INSURANCE APPLICANTS

See Ex-Im Bank's Short Term Credit Standards EIB99-09
 And Medium Term Credit Standards EBD-M-39
 for Buyers and Exporters to determine the likelihood of approval.

ON THE APPLICANT

1. Credit Report
2. Supplier Reference
3. Bank Reference
4. Financial Statements

ON THE OBLIGOR (BUYER/BORROWER) and/or GUARANTOR

For SINGLE BUYER POLICIES

1. Applicant's Experience **AND**
 1. Credit Report
 2. Bank References
 3. Trade References
 4. a) **Short Term:** 2 years Financial Statements
 b) **Medium Term:**
 Financed Portion **under \$1 million:** 3 years Financial Statements
 \$1 million or more: 3 years **audited** Financial Statements and "Appendix C" of EBD-M-39

OR

Market Rating

For MULTI BUYER POLICIES (Short Term - Special Buyer/Issuing Bank Credit Limits)

1. Applicant's Experience **AND**
 1. Credit Report
 2. Bank References
 3. Trade References
 4. Transactions of **\$100,000 or more:** Financial Statements

OR

Market Rating

NOTE: Policies with Discretionary Credit Limits (DCL) have specific requirements for credit information on the obligor to be obtained for use of either a Credit or Ledger DCL, and kept on file for submission with claims. For example, the DCL under a Bank Letter of Credit Policy allows use of an Issuing Bank's Rating by certain agencies. Please refer to the DCL endorsements.

* Application forms list the specific information on **applicants, exporters, suppliers, buyers and guarantors** required to consider an application. Submission of the information is required but does not assure approval of insurance cover. The likelihood of approval may be determined by reference to Ex-Im Bank's Short and Medium Term Credit Standards. Underwriters reserve the right to require additional information or explanation.